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For Immediate Release
July 20, 2006

Contact: Jamie Callahan
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Sen. Allen requests more information on questionable MiPC product endorsement program

Who: State Sen. Jason Allen, R-Traverse City, chair of the Senate Committee on Commerce and Labor.

What: Allen has sent a letter to Michigan Department of Information Technology Director Teri Takai requesting additional details on the administration's proposed MiPC program.

Briefing: "I continue to have serious concerns about the MiPC program," Allen said. "From what we have seen so far, it looks like this program will benefit large, out-of-state, multi-national corporations who least need the state's endorsement, while leaving Michigan business and consumers out in the cold."

Allen and other members of the Commerce and Labor Committee recently heard testimony from Takai and were left with several questions and concerns regarding why the state is endorsing products available on the free market, how the program will make computers more affordable for Michigan residents, why the bid was designed so no Michigan companies were able to participate, and the legality of DIT's authority to create and administer the program.

DIT and Department of Management and Budget have received bids from Dell, Lenovo (formerly IBM) and Comp USA to provide computers with the state's endorsement through the MiPC program. Both Lenovo and Dell manufacture overseas, while Comp USA is owned by a Mexican holding company.

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THE SENATE



SENATOR
JASON ALLEN
Chairman

Committee on Commerce and Labor

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July 19, 2006

Teri Takai, Director
Michigan Department of Information Technology
George W. Romney Building, 8th Floor
111 South Capitol Avenue
Lansing, MI 48913

Dear Director Takai:

Thank you for testifying before the Senate Committee on Commerce and Labor regarding the MiPC program. As you have not provided the material I requested in committee, this letter serves as my formal request for additional information on the topic.

As I am sure you are aware, I have serious reservations about this program on a number of levels. Absent the fact that your department has been able to provide the Committee with little detail with respect to its functioning, I do not believe that telling Michigan residents what products to buy in the marketplace is a public policy that should be pursued by state government. However, as it appears you will continue to move forward with this program, I would appreciate your written response to the following questions:

1. Your department has repeatedly stated that MiPC is not a product endorsement program. As I understand the program, companies are bidding on the ability to market a version of their product with the MiPC logo if that product meets the state's criteria. Given the fact that page 5 of the RFP states "state endorsement of the program is therefore a key component of this strategy," how do you justify the claim that this is not a product endorsement program? Why is the state endorsing products that are currently available on the free market?
2. The press release announcing the MiPC program, issued by your department on March 27, 2006, was titled, "Program will make computers more affordable for Michigan residents." The RFP contains no pricing requirements. The Michigan retailers who would be selling these computers, with the exception of CompUSA, are not involved in the RFP or any other aspect of the MiPC program. Please explain in detail how this program will make computers more affordable for Michigan residents.
 - Testimony from your agency indicated that this program was created as a result of polling and a focus groups funded by the Intel Corporation. According to the results of the focus group which you provided to my office, 63 percent of the participants identified cost as the largest barrier to computer ownership. If MiPC does not make computers more affordable, how will this program bridge the "digital divide" if, according to the Intel focus group, the divide is directly related to cost?

3. Page 13 of the RFP for the MiPC program lists a number of requirements that are key factors for consideration of bids on this contract. Specifically, it is preferred that the companies *"must be a global, well recognized brand name to ensure citizen confidence," "must be a recognized market leader (patents, brand value, and R & D investment)," "prime vendors must have 5+ years of positive financial results throughout the duration of the company. They must also have in excess of 3 billion dollars in sales volume for 2005 and are to provide a financial statement supporting the information provided."*

- Are you aware of any Michigan company that would meet all of these requirements?
- Are you aware of any Michigan company that would meet at least one of these requirements?
- As I am sure you know, our state is hemorrhaging manufacturing jobs at an alarming rate. Why did the administration specifically structure the MiPC program in such a way that it impedes the eligibility of a small Michigan computer manufacturer to receive the state's endorsement?
- How do you feel this program fits together with recent bipartisan efforts between Governor Granholm and legislative Republicans to "Buy Michigan First"?

4. I asked a number of specific questions in committee about the three companies who submitted bids on the MiPC program with respect to the location of their manufacturing operations. Of the three companies who bid on the MiPC program, none have a manufacturing presence in Michigan and some manufacture their products in countries such as China and India.

- With respect to the companies who seek to manufacture computers under the MiPC program, knowing that they will not be made in Michigan, can you give me the assurance that these computers will be manufactured in the United States?
- If you are unable to give me this assurance, then why did this administration create a program that outsources Michigan jobs to China and India?

5. In committee you stated that we need this program because "people get confused when they go to the computer store and are talking to a computer geek." Along the same line, your staff in previous testimony eluded to the fact that citizens don't trust that a computer salesperson will sell them the computer that they need. According to page 68 of the RFP titled "Summary of Results from Citizen Surveys," citizens want the following: Low price, good software package, broadband, a recognized brand, good financing, a good warranty, return policy, and technical support.

- Noticeably absent from this list contained in the RFP, and my review of the polling and focus group data, is any mention of the fact that consumers are confused or do not trust computer salespersons. Given the fact that this is not mentioned in the polling or focus group data, how did you arrive at the conclusion that people are easily confused by salespeople or that they do not trust salespeople?
- Is it difficult to find businesses in Michigan that carry computer packages containing the items listed on page 68 of the RFP? If sufficient products are currently available, why do you feel that state government needs to intervene?

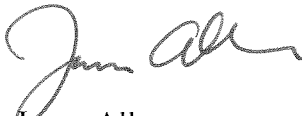
6. Has the Legislature, through FY 2006 appropriations or by statute, granted DIT the authority to expend state resources such as staff time to create and administer this program? If so, please provide me with a copy of this statute or appropriations act.
- Where does the Department derive the legal authority to administer a state product endorsement program without the approval of the Legislature? Please cite specific sections of state law in your explanation.

In summary, the polling and focus groups used as the basis for this program indicate that cost is the barrier to computer ownership, but the program does not include any pricing guarantees. Your department has indicated that the program is needed to alleviate certain consumer concerns, but the polling and focus groups do not support that conclusion. Finally, the Legislature has not granted you the legal authority to run this program.

I fail to see how this program benefits Michigan businesses and specifically small computer companies. It appears that the major benefactor will be the large, state endorsed, out-of-state, multi-national corporations whose products are manufactured overseas. The MiPC program will establish a process for the state to endorse products made by some of the most well-known computer companies in the world, who least need a state endorsement, while leaving Michigan businesses out in the cold.

Thank you in advance for your prompt response to these concerns. Please provide this information to my office by the end of the day on Friday, August 4, 2006.

Best Wishes,



Jason Allen
State Senator
37th District

JA:jga

CC: The Honorable Ken Sikkema, Senate Majority Leader
Ms. Dusty Fancher, Deputy Director, Legislative Affairs, Office of the Governor
Ms. Lisa Webb Sharp, Director, Department of Management and Budget